

COLORADO TRUST LANDS

COLORFUL COLORADO

FY 2010— 3rd Highest All Time Revenue and Still Supporting Public Schools & Universities



Quick Facts on Colorado's Trust Lands

Trust Land Ownership:

3 million acres of Surface Land

4 million acres of Mineral Rights

FY 2010 :

\$ 66 million in revenue for schools

\$ 1 million to universities, parks & others

\$620 million invested for public schools

\$ 51 million from oil, gas, and minerals

\$ 8 million from grazing & agriculture

\$ 8 million from other surface uses



Despite a dismal national economy, through hard work and rising oil prices, the Colorado State Land Board raised the most money they had ever raised since statehood with the exception of two other years. They manage **eight** separate trust for Public Schools: University of Colorado, Colorado State University, State Penitentiary, Public Buildings, the Hesperus Trust for Fort Lewis College, the Saline Trust, Internal Improvements, and the School Trust. Of course, the School Trust is the largest with 2,650,000 acres of surface and almost 4 million acres of minerals. The other remaining seven trusts have less than a hundred thousand acres. That much surface land is hard to imagine, but it is about the size of Connecticut, or two Delawares, or four Rhode Islands.

Oil and gas were the main revenue sources for the agency, generating over \$44 million from production, rentals, and bids for leases. The royalty rate is currently at 12.5% of the gross value of the production. That is referred to as a one-eighth royalty. Beginning next fiscal year, all new oil and gas leases will be offered at a one-sixth royalty rate or 16.67%. The new royalty rate will be at that of the federal government and other adjoining states.

The second largest revenue source from Colorado's trust lands was \$7 million derived from coal production. Seventy one

percent of Colorado coal is shipped out of state. The balance is used to generate electricity, make cement, and produce steel. The mines are located on the state's western slope. Colorado coal miners earn almost double the states average wage and are close to a six-digit figure. The coal royalty rate is 8% and is the same as that of the federal government and other underground coal mines in other states.

The third highest revenue source is grazing, which generates over \$6 million annually for Colorado schools, universities, and other institutions. Almost every acre in the portfolio is under lease for grazing with a few exceptions. The grazing revenue works out to about \$2.32 per acre. The Colorado State Land Board generates additional revenue by issuing private recreation leases for hunting or by leasing hunting lands to other state or federal agencies. Since most of the trust lands are not suitable for agricultural use, the agency leases only 100,000 acres for agriculture. Despite the small number of acres under lease, agricultural leases generate almost \$20 per acre—more than 8 times the amount that grazing generates!

Every profitable activity conducted on private lands generates revenue on Colorado trust lands. Based on market rates, the Colorado State Land Board has 121,000 acres under lease for commercial and industrial purposes. The fees are determined by market comparables from the private sector. Those leases generated over \$3.5 million last fiscal year.

The Colorado State Land Board recognizes that the highest and best use of lands is not always for immediate revenue generation. They have placed approximately 300,000 acres in a Stewardship Trust. That represents about one-tenth of the trust acreage. The Colorado State Land Board has also leased 23,000 acres for conservation, based on the market value of the property. There are about 350,000 timbered acres in the 3 million acres of the trusts portfolios. Normally when timber is ready for harvest, the Colorado State Land Board sells the timber through a bid process established by the Colorado State Forest Service. The pine bark beetle has devastated forests throughout the west. Colorado has not been immune, and in this fiscal year the Colorado State Land Board allowed the Colorado State Forest Service to use the timber revenue to aggressively manage the beetle kill timber to try to control the spread of the infestation.



Fiscal Year 2010 Revenue:

Oil and Gas Revenue	\$ 44 million
Coal Revenue	\$ 7 million
Grazing on 2.7 million acres	\$ 6 million
Commercial/Industrial on 121,000 acres	\$ 4 million
Agriculture on 97,000 acres	\$ 2 million
Other Surface Revenue	\$ 5 million
Timber sales	\$ 0
Conservation leases on 50,000 acres	\$ 184,000

The public schools are the only one of the 8 trusts that has a permanent fund created from the revenues from the granted lands. The fund is referred to as the Public School Permanent Fund and is invested by the State Treasurer. The fund has an FY 2010 value of \$619,518,459. All of the fund is invested in fixed income assets, unlike most other states who follow the prudent investor rule and have over half of their endowment funds invested in equities and other financial instruments. The total return on the fixed income investments was 7.74% in FY 2010 and 8.88% in FY2009. Unlike most other states, Colorado was one of the few that had a positive return on investment in FY2009 when the markets fell.

The State Land Board had two major accomplishments this fiscal year. Their first accomplishment set a state record. In May of 2010, an oil and gas auction generated \$12 million in lease bonuses, largely due to interest in the Niobrara shale. That one auction was the highest bid offering since statehood and was three times higher than the next highest bid offering. Their second major accomplishment was a land exchange. Few outside of land offices understand how difficult, time consuming, and usually futile land exchanges are with the federal government. It is not unusual for a land exchange to begin in one director's life time and not be consummated until another director's life time. Exchanges with the federal government are known to cost millions and result in no exchange, even with Congressional authorization. The State Land Board actually exchanged 50,000 surface and mineral acres in the Baca Great Sand Dunes with the federal government for 35,000 surface and mineral acres of higher value and with greater potential to generate revenue.

The Colorado State Board of Land Commissioners is a 5 person citizen board. The agency was managed by Tobin Follenweider, Acting Director, and was entirely self-funded from the proceeds of the transactions on the trust lands.

